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C O N F I D E N T I A L SECTION 01 OF 03 KINSHASA 000984

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TREASURY FOR LKOHLER

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SUBJECT: FINANCE MINISTER RESPONDS TO PRESSURES

REF: A. KINSHASA 968 B. KINSHASA 977

Classified By: Classified by Ambassador Roger Meece. Reason 1.4 (b/d)

¶1. (C) Summary: Finance Minister Banguli organized a lunch June 19 involving Budget Minister Mwamba, Central Bank Governor Masangu, and the German, British, French, Belgian, and U.S. Ambassadors to discuss the GDRC's rather dire fiscal problems. Banguli focused on three issues, the GDRC's excess April spending, the need for ongoing debt relief despite IMF formal program suspension, and the GDRC's new Poverty Reduction Strategy Paper (PRSP). He vigorously denied excess April spending was election-related, and said it was not indicative of a trend, but rather mostly a result of deferred first quarter bills accumulated due to lack of a budget. Banguli also complained about some IMF media statements, asserting that negotiations were better handled privately. Regarding debt and the PRSP, Banguli appealed for continuing donor support. Extensive discussion was devoted to the need for greater military sector spending and transparency, which the Ministers readily acknowledged. The lunch represented a somewhat unusual but welcome initiative from the Congolese, offering the promise of a more open dialogue than has been the case in the past. End summary.

Lunch and Budgets

¶2. (C) Finance Minister Marco Banguli organized a June 19 lunch, inviting the German, British, French, Belgian, and U.S. Ambassadors to discuss the GDRC's increasingly dire fiscal problems. Banguli, affiliated with President Kabilas PPRD party, also had Budget Minister Muamba, member of VP Bemba's MLC party, at the lunch, as well as Central Bank Masangu. During the course of the lunch discussion, all three Congolese concurred on all significant points, showing little divergence of views or policies, a welcome and somewhat untypical sign of multiparty cooperation in the DRC's fractious Transition government. The lunch followed the IMF's recent mission to the DRC (reftel A) designed to finalize arrangements for a staff monitored program (SMP) following the lapse of the former formal IMF program at the end of March.

¶3. (C) Banguli had three main points on his agenda: seeking to explain the DRC's excessive April spending; appealing for support to maintain debt relief, and rapid completion of the DRC's new PRSP (ref B). Banguli started with the April spending, vigorously denying talk that a reported Congo Franc(CF)13 billion (USD 29 million) overrun in the month represented election campaign-related spending, not a new

trend of spiraling expenditures. Rather, he asserted, most of the amount was due to accumulated bills and arrears representing obligations arising from the January to March period, unpaid because the parliament had failed to pass a budget on a timely basis thus creating a backlog that was cleared in April. Banguli cited numerous specific figures and expenses, and promised the Ambassadors that a more complete accounting of the April accounting would follow in writing within days. Budget Minister Mwamba also noted that general figures were also newly available on the GDRC's recently-introduced budget web site, an innovation designed to promote greater transparency and accountability.

¶4. (C) Banguli was anxious to reaffirm the GDRC's commitment to IMF budget and other macroeconomic targets, repeatedly stating that there was no substantive disagreement between the GDRC and the IMF regarding the parameters of the SMP. These targets, in fact, largely parallel those of the past formal program. The GDRC would like to get the SMP signed and established as soon as possible, and hopes to do so very soon. Banguli complained, however, about a recent Radio France International (RFI) broadcast, quoting the IMF resident representative as suggesting that full accounting for the April overruns was an explicit precondition for the SMP. He went on to say that while the government was prepared to discuss the problem, no such formal condition had been identified during the recent IMF mission, and in any event a media broadcast seemed an inappropriate way to introduce a new topic or otherwise negotiate with the GDRC. Banguli and Mwamba repeatedly reassured the Ambassadors that while the Transition government may be weakened during its remaining months, it was committed to full fiscal discipline. They did acknowledge, however, the difficulty in maintaining

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a strict line.

¶5. (C) All of the Ambassadors assured the GDRC officials that their respective governments strongly support the DRC's transition to democracy and elections, and are aware of constraints under which the government is operating. All, however, also strongly emphasized the need for the government to show maximal effort to keep its fiscal house in order, control expenditures, and ensure allocations of available funds to priority sectors.

Debt and the PRSP

¶6. (C) Banguli was anxious to appeal for support from donors regarding debt payments in coming months. Both ministers were clearly aware of the impact of the IMF program suspension, but appealed for whatever could be done from the respective creditor nations to defer or waive debt payments that would otherwise come due under Paris Club arrangements. Banguli pointed out that given the severe fiscal constraints the government faces, it is unlikely the GDRC could undertake any significant debt payments in any event.

¶7. (C) Banguli also noted the GDRC's strong interest in getting its PRSP approved and implemented. He underscored the government's intent to get an approved PRSP to the Fund and Bank in Washington as soon as possible, and noted that the government's Minister of Planning, who has the lead for the PRSP, would stop in several European capitals to seek support for the PRSP and answer questions while en route to Washington with the GDRC- approved plan.

¶8. (C) The Ambassadors assured the Congolese of their interest in being supportive in both areas in response to positive actions by the government. The latest PRSP draft, all agreed, looked good with only relatively minor adjustments needed to finalize it. The Belgian Ambassador noted that the Finance Minister will soon be signing an agreement with his Belgian counterpart which it appeared will essentially provide for transferring

central-bank-to-central-bank debt to government-to-government debt which would be easier to manage in the context of debt payment deferral. The Finance Minister and French Ambassador both noted that some particularly significant debt payments to France are scheduled to come up in the near future, and the French Ambassador reported that Paris is actively working to see how the situation can be handled. The Finance Minister said that he will be meeting soon with the Paris Club secretary general (Note: presumably following the Belgian visit and signing) to lay out the DRC's case. The Ambassadors strongly supported these talks, and more generally ongoing active contacts to be as forthcoming as possible with the IFIs and creditor governments and institutions.

Worried Eye on the Military

¶9. (C) The Ambassadors underscored the particular concern of the donor community centered on military spending. This was a sector of critical importance, but also one characterized by the least amount of budget transparency. Better control and more information is essential, including a general meeting on budget and expenditure transparency, requested by the donors for several months. Both Ministers readily acknowledged the problem. Indeed, they welcomed donor interest and pressure, indicating that they themselves often had trouble getting needed information. They fully support the proposal for a military spending transparency meeting, conditioned only by their own participation in the event. Recently, for example, the Finance Minister indicated that the Army had requested a supplemental allocation of USD12 million, associated with the sensitive June 30 Transition anniversary date. The Finance and Budget Ministers could not understand what the money was for, but wanted to avoid being cast as obstacles to a vital national security need. Eventually, however, the request had been denied, lacking sufficient justification. The Ambassadors agreed the request appeared unwarranted, noting that the police, not the military, have primary responsibility for June 30 security management. Everyone agreed that as much pressure as possible should be made, indeed coordinated, from within the government and from foreign missions to achieve badly needed

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improvements in military budgeting and spending.

Comment: Useful New Initiative

¶10. (C) The lunch represented an unusual and useful new initiative from the Finance Minister. Discussion was open and frank, and the Ministers both seemed aware of the need for improved communications and good fiscal performance from the GDRC to make it through the coming months. Ambassadors frankly laid out their concerns, while the GDRC officials laid out their views and justifications without lapsing into defensiveness. The Minister's willingness to tackle head-on the April excess spending was also welcome, although we will be analyzing further the promised documentation and figures when received. We will, of course, also monitor how subsequent months' spending is going. It appears at minimum we will have an available channel to explore whatever questions or concerns arise. End comment.

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